

Commercial Real Estate Space: Methods to Measure Space and Impact on Tenant Rent

1. The Industry Issue with Space Measurement: Why It Matters to Brokers?
 - There is no legal standardization
 - Every landlord, broker, tenant may have a different method
 - Tenant may not understand what it is actually receiving for space and how the rent was determined
 - Simple formula: Rental Rate x Square Feet = Annual Rent
 - Problem: Landlord brokers represent space on a rentable basis while tenants think on a usable basis.
 - There is a distinction for a tenant between what it will occupy and what amount of space it will pay
 - Can lead to misrepresentation, lack of clarity, tenant mistrust and legal action
 - There is no universal industry agreement between all real estate professionals on the definitions.
 - This lack of continuity adds confusion to tenants and brokers and possibly lead to a 93A violation.
 - Over the years, there have been lawsuits on the accuracy of measurements.
 - Tenant wants to know the accurate physical space that it will be occupying
 - Landlord speaks in the terms of the square footage that will be used to calculate rent
2. Identifying Types of Commercial Square Feet
 - Gross
 - Gross Leasable Area (retail, GLA)
 - Buildable
 - Rentable
 - Usable
 - Net Usable
 - Others?
 - Confusion is that different sectors and services in real estate have different names and different methods. What one party might call gross square footage, another party might refer to as buildable square footage.
 - Industry practice is for a landlord broker to speak in RSF while the tenant is speaking in USF. Many landlord brokers do not know the USF which is critical in a leasing decision.
3. Different Methods to Measure Space
 - Are there differences from office, industrial and retail?
 - Who decided the methods?
 - Different organizations: SIOR, BOMA, ANSI and now RICS
 - In the U.S. the industry will often use the ANSI/BOMA joint methods but not required.
 - The methods are updated and can change periodically
 - MA has the SMOOT measurement
 - Internationally there are different names and methods
 - For example, Japan, tsubo; China, ping; Europe, square meters
4. What are the methods for measuring?
 - The most acceptable method for office/industrial/retail is the ANSI/BOMA Methods for Measuring Space
 - Depending on the class, a review of the ANSI/BOMA 2010 measurement methods for either office, industrial, retail or all three.
 - Define the concept of square foot: length x width
 - Could also have cubic foot as with industrial buildings: length x width x height
 - Three basic square footage types used in commercial real estate is: gross, rentable and usable.
 - Gross Square feet (outside to outside)
 - Buildable (outside to outside) but can be more of an architectural method
 - Usable (inside to inside of premises)
 - Rentable (usable and common area percentage)

- Does the tenant pay rent based on square footage it occupies? How would the tenant know? Brokers may speak in one language without clarity or distinction. Not all parties refer and define square footage in the same manner. Methods are different from city to city and market to market.
 - Diagrams or examples of office/industrial or retail buildings RSF v. USF v. Gross v. Gross Leasable Area
 - Examples of how a building could be measured
 - In 2015, most of the US real estate organizations teamed up with the Royal Institute of Chartered Surveys to create a global standard to measure office buildings
 - Globally accepted measurement method is IPMS or International Property Measurement Standards
 - Review of IPMS from www.rics.org
5. Common Area Conversion Factors
- What is considered common area? Why?
 - How is the common area measured? What are the points of measurement?
 - There are 2: Common Area Factor and Loss Factor
 - CAF: $USF \times CAF = RSF$
 - Example: $2,000 \text{ USF} \times 1.16 = 2,320 \text{ RSF}$
 - Loss Factor: $USF / LF = RSF$
 - Example: $2,000 \text{ USF} / .84 = 2,381 \text{ RSF}$
 - There are 2 variables used for the same space but one factor calculated a larger rentable area than the other.
 - All commercial buildings have different factors and therefore the tenant can “shop” the building with the least amount of common area to create rent efficiency.
6. Unique Situations (focus on the commercial product applicable to the class)
- What if there is an outside building dock? Where is the point of measurement? Common dock versus internal dock solely for one tenant
 - How are measurements decided for outside office door overhang or vestibule?
 - How are foyers in an office building measured?
 - How is the square footage decided for an industrial user occupying an entire building? What if the industrial building is multi-tenanted?
 - How is square footage decided for a full building office tenant?
 - What about full floor tenants in a multi-tenanted building?
 - Are methods different for a downtown office tower vs. a suburban low rise office building?
 - Examples of how a strip retail building vs. a mall premise measured
6. Lease Clause Impacts
- Rent Due: annual, monthly, aggregate
 - Pro Rata Share determination
 - Premise Clause
 - Tenant Improvement allowance: on a RSF or USF basis?
 - Parking Ratio: on a RSF or USF basis?
 - Employee per square foot: on a RSF or USF basis?
 - Real estate taxes and Operating Expense Reimbursements: on a RSF or USF basis?
 - Representing Sublet space availability
 - Others?
7. Other Measuring Issues and Future Concerns